COUNCIL OF THE Americas

SUBCOMMITTEE ON THE WESTERN HEMISPHERE
HOUSE INTERNATIONAL RELATIONS COMMITTEE
HEARING ON WESTERN HEMISPHERE ENERGY SECURITY
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TESTIMONY SUBMITTED BY
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VICE PRESIDENT

As Prepared for Delivery

Good afternoon, Mr. Chairman and members of the Committee. My name is Eric Farnsworth, Vice President of the Council of the Americas. As you know, for over 40 years the Council of the Americas ("Council") has been a leading voice for policy and business in the Western Hemisphere, from Canada to Argentina. Our members include some 170 prominent companies invested and doing business in the Americas, with a mandate to promote partnership in the Americas based on democracy, open markets, and the rule of law. Thank you, Mr. Chairman, for the opportunity to appear before you on an issue of such importance to both the United States and the Western Hemisphere.

Mr. Chairman, let me give you the proverbial bottom line first. Energy in the Western Hemisphere—whether we realize it or not—is of the highest strategic importance to the United States. As you know, we are the world's largest energy user; even if we are overtaken at some point by China, our own energy needs will continue to increase as both our economy and population grow. At the same time, though we ourselves have abundant energy resources including oil, gas, coal, and a growing potential for alternatives, we are not self-sufficient, and self-sufficiency really isn't a realistic goal at this point. We are energy interdependent, and to meet our needs, we will have to continue to rely on imported energy.

Currently, three of our top five sources of imported energy are in the Western Hemisphere: Canada, Mexico, and Venezuela, along with Saudi Arabia and Nigeria, making the Western Hemisphere a key to our economic well-being and strategic interests. That's particularly important to remember as recent terrorist attacks against Saudi oil refineries or Nigerian supply disruptions fill the news, to say nothing of ongoing difficulties in Iraq and Iran or the exponentially increasing demands of China and other rapidly developing nations. All other things being equal, energy partnership in the Americas can, and really must, support our broader economic and strategic interests.

At the same time, the democratic development of Latin America and the Caribbean is a top priority for US policymakers on a bipartisan basis, and enhanced wealth creation in the region is a critical component for that development. To give just one statistic, the World Bank recently reported that between 1980 and 2000, per capita GDP in Latin America grew, in total, *less than one percent*. On the other hand, over the same period of time China enjoyed per capita GDP growth of over eight percent *per year*. It's in addressing this development gap, which increases every year, that energy in the Americas becomes so important.

The opportunities are solid, because Latin America, the Caribbean, and Canada are truly blessed in terms of the level of proven energy resources they possess. Canada, for example, possesses an astounding 179 billion barrels of non-conventional oil sands, which are now economically viable given advances in technology and higher oil prices generally. In fact, recoverable energy reserves in the Western Hemisphere, including unconventional oil reserves, surpass even Saudi Arabia and dwarf other regions of the world. In terms of proven conventional reserves in the Western Hemisphere, Venezuela is at the top, followed by the United States, Mexico, Brazil, and Ecuador, and Brazil has just announced promising additional finds. The hemisphere also enjoys plentiful deposits of natural gas—a key fuel source in terms of electric power generation. After the United States, Venezuela again has the highest level, followed in order by Canada, Bolivia, Trinidad and Tobago, and Mexico. As well, significant potential exists to produce and consume alternative fuel sources, such as ethanol from Brazil and elsewhere to supplement US production, or coal bed methane from Canada. In terms of coal, the United States remains well ahead of our neighbors in both production and consumption.

These resources by any measure can play an important, if not paramount, role in regional development if developed and consumed wisely. On the supply side, absent energy, the development prospects for a nation such as Bolivia, South America's poorest nation, or Ecuador, are uncertain at best. On the demand side, without greater attention to market efficiency in the development and utilization of hemispheric energy resources, it will be more difficult for producers and consumers both to build regional competitiveness in a global economy. This directly impacts the hemisphere's ability to compete successfully against the rapidly modernizing economic giants of China and India, as well as a host of other nations.

For the United States, if existing trends continue projecting out until 2025 or 2030, the increasing US demand for energy can be met by sources from our own hemisphere, though that is not guaranteed. What's not yet apparent is how to mobilize the massive investments that will be required to fully develop these impressive hemispheric resources, particularly in an environment where, as former Secretary of State Colin Powell has said, global capital is a coward and it will always seek its highest risk-adjusted return.

Clearly, there would appear to be a mutuality of long-term interests in the hemisphere in building energy partnership in the Americas.

The Western Hemisphere is part of a global economy, competing for the same marginal investment dollars as everyone else. For investors to invest, the risk adjusted climate must be welcoming. To be direct, it is therefore incumbent upon nations in the hemisphere wishing to develop their natural resources that might otherwise lack technical and managerial expertise, as well as significant capital of their own, to create an investment climate whereby foreign energy companies can work in partnership with local governments to develop their resources in a mutually beneficial manner. Attention to industry-specific and more general investment climate issues is needed: improvements in education, training, and the rule of law; regulatory certainty; non-discriminatory and stable tax regimes; effective personal security; anti-corruption; and effective dispute resolution. Those countries which have paid attention to these matters have seen investments increase. As well, international financing institutions such as the Inter-American Development Bank have an important role to play in mobilizing capital for investment, as the IDB has done, for example, in Peru's Camisea natural gas fields.

With these issues in mind, the Council of the Americas released a report late last year, in advance of the fourth Summit of the Americas in Mar del Plata, Argentina, which suggests a number of recommendations for hemispheric policymakers. With the Chairman's agreement, I would ask that that report be introduced in the record.

Briefly, the report argues that maintaining a secure supply of energy from foreign sources is a strategic matter for the United States, and energy in the Americas must therefore be a priority. Increasing partnership in hemispheric energy matters must be an important part of our overall hemispheric policy, not an afterthought or taken for granted. A balanced, engaged approach is needed.

Second, in a global environment, competitiveness is perhaps the key issue facing the hemisphere. High direct or indirect energy costs due to market rigidities impact all energy users, making the region a less attractive place to do business, to say nothing of quality of life issues. As well, investment climates that are unattractive compared to other countries and regions will not attract the direct foreign and domestic investment required to develop either the energy resources mentioned above or the broader economy. Mexico, for example, despite sitting on sufficient natural gas reserves, actually imports natural gas and has done so since 2000. This directly impacts Mexico's national income accounts and their competitiveness profile at a time when that nation, even with the NAFTA relationship with the United States and Canada, faces a direct economic challenge from China. Hopefully, we'll see some movement on these issues in Mexico after their elections on July 2, but that remains to be seen, and of course it's up to Mexicans themselves to determine how to best develop their own energy resources.

In the North American context, energy issues are an important part of the Security and Prosperity Partnership (SPP) which the Administration has rightfully made a priority, and which the Council has strongly endorsed. As in other hemispheric nations, it's difficult to see how Mexico develops if its energy reserves continue to fall due to a lack of energy sector investment, and an underdeveloped Mexico, as the Council has pointed out elsewhere, is of strategic concern to the United States. But it's not just Mexico; it will be impossible to fully develop Canada's energy resources, discussed earlier, unless the three governments find a means whereby labor markets and products to service the fields are made more flexible through the SPP or alternative means. Addressing market rigidities in North America and throughout the region would help make partnership possible.

Finally, in addition to conservation, which may be the top form of alternative energy available, we must do a better job exploring the possibility of alternative fuels in the hemisphere, which could prove to be a boon for development while making the region less reliant on imports from elsewhere. Of course the President mentioned ethanol in his State of the Union address, and he also discussed it directly with Brazil's President Lula during a short trip to Brasilia in November. The resources are there to supplement our own, given Brazil's agricultural profile; what's been missing has been a market to use ethanol as well as a price point of conventional fuels high enough to make ethanol economically viable. But as oil prices remain historically high, the cost of ethanol production is now economical. As well, flex fuel automobiles, which automatically determine the proper fuel mix between gasoline and ethanol, are becoming a real alternative. The question, though, is not one of energy, but rather trade policy. Brazilian ethanol is made from sugar, and anyone who followed the recent CAFTA debate knows the political sensitivity of these issues in the United States. But as a strategic matter, the issue bears consideration and could provide a way forward not just on energy, but also on trade matters generally.

These issues are ripe for further consideration. The resources exist, and so does the need. What doesn't yet exist, though could, is the size and quality of investment needed to develop and effectively utilize these resources. That is the real issue, and the opportunity, facing those who would promote energy partnership in the Americas.

Mr. Chairman, thank you again for the invitation to be with you today. I look forward to answering any questions you might have.